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ORIGINAL ARTICLE

Determinants of Local Government Financial Performance

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ABSTRACT
This study aims to determine the determinants of local government financial performance in North Sumatra. This research is a type of associative research. The sampling technique was carried out using a saturated sampling technique. The sample obtained was 33 regencies/cities in the province of North Sumatra with a total of 165 observational data for 5 years of observation. The data collection technique used is documentation with data sources using secondary data taken through the official website of the Ministry of Finance DJPK. The data analysis technique used in this research is multiple linear regression analysis. The results of this study indicate that the factors that affect the financial performance of the regional government, namely local revenue, balancing funds, and capital expenditures, partially and simultaneously affect the financial performance of local governments.

Keywords: *Regional Original Income, Balance Fund, Capital Expenditure, Financial Performance*

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INTRODUCTION

Local governments can be said to be successful in carrying out their functions if the local financial management carried out requires transparency and accountability. Efforts are being made to realize transparency and accountability, namely that the submission of government financial reports must meet the principle of being on time and prepared in accordance with Government Accounting Standards (SAP). The financial reports presented by the regional government are used as the basis for regional accountability to the public, but if there are deviations in the financial statements, there is an indication that the regional government is not performing well. Financial performance according to Fahmi (2012) is a measure of an effort made to see the extent to which certain organizations or agencies carry out financial-related activities in accordance with applicable regulations properly and correctly. In accordance with Article 4 Regulation No. 105 of 2000 which stipulates that regional financial management must be carried out in an orderly manner, complying with applicable laws and regulations, efficient, effective, transparent, and responsible with attention to justice and compliance. If regional financial management is carried out properly in accordance with established regulations, it will certainly improve the performance of the government itself.

Public sector companies (local government) are very different from the private sector. There are several methods for measuring financial performance in the public sector (local government) including performance assessment using the balanced scorecard method, value for money, analytic hierarchy process and financial ratio analysis. One way of measuring/assessing the financial performance of the public sector that focuses on the financial aspect to assess local governments is financial ratio analysis. In local government agencies, the assessment of Financial Performance using financial ratio analysis is carried out based on financial report data on local governments in the form of accountability for the use of the Regional Revenue and Expenditure Budget (APBD). Regional Government Financial Performance Assessment is carried out using ratio analysis to APBD. The results of the calculation of the ratio analysis carried out on the APBD, can then be used as a measurement guide to assess the Financial Performance of the Regional Government of a region in terms of managing financial resources.

Whether or not the financial performance of local governments can be influenced by the size of the Regional Original Income (PAD). Regional Original Income is all cash receipts that are regional rights and are recognized as an addition to the value of net worth in one fiscal year, Regional Original Revenue is the backbone of regional financing (Julitawati, 2012). According to Halim (2004), the regional income sector plays a very important role, because through this sector it can be seen how far a region can finance government activities and regional development, so that by increasing regional original income it will improve regional financial performance. In this study found phenomena regarding local revenue with local government financial performance in several regencies/cities in North Sumatra Province in 2015-2019 including :

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Table 1. Data on Regional Original Revenue and Financial Performance of Regional Governments

District/City	Year	Regional Original Income	Regional Government Financial Performance
District. Langkat	2015	122.715.359.910	83,64
	2016	132.673.213.413	91,87
	2017	139.717.647.855	90,69
	2018	136.680.578.541	91,45
	2019	167.523.076.880	90,14
District. Padang Lawas	2015	34.707.409.095	84,00
	2016	39.341.382.404	81,32
	2017	46.509.729.525	79,23
	2018	47.455.308.607	79,94
	2019	52.067.312.091	78,42

Source: DJPK Ministry of Finance (Data processed by the author, 2021)

Based on table 1. several phenomena were found in several districts/cities in North Sumatra Province in 2015-2019 including Kab. Langkat and Kab. Old Field. In five years of research on local revenue, Kab. Langkat tends to increase, but the district's financial performance fluctuates or fluctuates from year to year. Meanwhile, what happened to Kab. Padang Lawas in the five years of the study can be seen an increase in local revenue each year, but the district's financial performance decreases every year. This is contrary to the theory put forward by Halim (2004) The local revenue sector plays a very important role, because through this sector it can be seen the extent to which a region can finance government activities and regional development, so that by increasing local revenue it will improve performance. regional finance. Another factor that can affect the financial performance of local governments is the Balancing Fund. According to Pradana (2016), the Balanced Fund aims to create a financial balance between the central government and local governments. The Balancing Fund which consists of Revenue Sharing Funds from tax and SDA revenues, General Allocation Funds, and Special Allocation Funds is a source of funding for regions in the implementation of decentralization whose allocations cannot be separated from one another considering that the objectives of each type of revenue are complementary and complete.

The Balancing Fund has an effect on the financial performance of local governments because the greater the transfer of Balancing Funds received from the central government, it will show that the regional governments are increasingly dependent on the central government to meet their regional needs. So that it will make the financial performance of local governments decline (Julitawati, 2012). Then it was also found the phenomenon of balancing funds with the financial performance of local governments in several regencies/cities in North Sumatra Province in 2015-2019 including :

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Table 2. Data on Balancing Funds and Regional Government Financial Performance

District/City	Year	Regional Government	Financial Performance Balancing Fund
District. Deli Serdang	2015	1.565.271.496.813	107,70
	2016	1.974.002.987.811	110,86
	2017	1.987.560.013.808	127,87
	2018	1.992.298.798.336	117,55
	2019	2.000.833.953.938	120,35
District. Batubara	2015	665.570.072.713	85,78
	2016	864.939.099.283	91,46
	2017	781.997.824.280	88,38
	2018	784.874.225.863	88,84
	2019	800.268.552.172	94,08

Source: DJPK Ministry of Finance (Data processed by the author, 2021)

Based on table 2. several phenomena were found in several districts/cities in North Sumatra Province in 2015-2019 including Kab. Deli Serdang and Kab. Coal. Regency. The two districts receive balancing funds that increase every year, but the financial performance of these districts also increases every year, should this condition affect the decline in financial performance in these districts. In this case it has been explained by Julitawati, (2012) who argues that the Balancing Fund affects the financial performance of local governments because the greater the transfer of Balancing Funds received from the central government, it will show that the stronger local governments depend on the central government to meet their regional needs. This will reduce the financial performance of local governments.

In addition to balancing funds, capital expenditures can also affect the financial performance of local governments. According to Halim (2012) Capital expenditure is a budget expenditure for the acquisition of fixed assets and other assets that provide benefits for more than one accounting period. Capital expenditures are intended to obtain local government fixed assets, namely equipment, buildings, infrastructure and other fixed assets. Sudarsana (2013) which states that large capital expenditures are a reflection of the large number of infrastructure and facilities being built. So that the more development that is carried out will improve services to the community so that regional performance will be better. This shows that the higher the capital expenditure, the higher the financial performance of the local government to provide good infrastructure and can create efficiency in various sectors and the higher the productivity of the community so that there is an increase in welfare growth. The following is a phenomenon regarding capital expenditures with local government financial performance in several regencies/cities in North Sumatra Province in 2015-2019, including :

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Table 3. Data on Capital Expenditures and Financial Performance of Regional Governments

District/City	Year	Capital Expenditure	Local Government Financial Performance
District. Nias Selatan	2015	184.978.091.040	81,42
	2016	122.786.000.000	74,91
	2017	187.946.733.163	72,26
	2018	221.305.834.645	70,46
	2019	238.978.343.319	70,49
District. Labuhan Batu Utara	2015	217.437.966.471	84,02
	2016	256.257.000.000	92,84
	2017	204.563.138.008	91,22
	2018	223.037.632.088	95,75
	2019	258.116.878.081	90,55

Source: DJPK Ministry of Finance (Data processed by the author, 2021)

Based on table 3. several phenomena were found in several districts/cities in North Sumatra Province in 2015-2019 including Kab. South Nias and Kab. North Stone Labyrinth. In five years of research on capital expenditures issued by Kab. South Nias continues to increase every year, but the district's financial performance tends to decline. Meanwhile, what happened to Kab. North Labuhan Batu for capital expenditures issued every year tends to increase, but the district's financial performance fluctuates or fluctuates from year to year. This is also contrary to the theory put forward by Sudarsana (2013) which states that large capital expenditures are a reflection of the amount of infrastructure and facilities being built, so that the more development carried out will improve services to the community so that regional financial performance will be better. Based on the description above, the problems in this study can be identified as follows:

1. In some regencies/cities in North Sumatra Province, the Regional Original Income increases every year, but the financial performance of the regencies/cities in each year fluctuates or fluctuates. Then in other districts, local revenue has increased, but the financial performance of the district/city has decreased. This is contrary to the theories described previously.
2. In several regencies/cities in North Sumatra Province, the Balancing Fund increases every year, which is also followed by an increase in the financial performance of the regencies/municipalities. This is contrary to the theories described previously.
3. Capital expenditure used by one of the districts/cities in North Sumatra Province increases every year, followed by a decline in the financial performance of the district. Then in other districts the capital expenditure used has increased, but the financial performance of the district/city has fluctuated or fluctuated. This also signifies the contradiction of the previously described theories.

METHOD

This research is included in the type of descriptive and associative research. Descriptive research is a form of research that aims to describe existing phenomena, both natural phenomena and man-made phenomena. These phenomena can be in the form of forms, activities, characteristics, changes, relationships, similarities, and differences between one phenomenon and another (Sugiyono, 2010). Associative is research that aims to determine

the effect or relationship between two or more variables (Sugiyono, 2010). The population is a generalization area consisting of subjects or objects that have certain qualities and characteristics that are applied by researchers to be studied and then drawn conclusions (Sugiyono, 2010). The population in this study were 33 districts/cities in North Sumatra Province. This study uses a saturated sampling technique (census), namely sampling if all members of the population are sampled. Saturated sampling is a sample that represents the total population. Usually done if the population is considered small or less than 100 (Sugiyono, 2010a). The data collection technique used is the documentation method by collecting and processing data from secondary data sources in the form of a report on the realization of the Regency/City APBD of North Sumatra Province obtained through the website of the Ministry of Finance of the Republic of Indonesia's Director General of Regional Fiscal Balance (www.djpkpd.go.id). This study uses multiple linear regression analysis which is used to predict the effect of the independent variable on the dependent variable.

RESULTS

Before testing the regression model, a series of classical assumption tests need to be performed on the regression model. This is done to test that the model used in this study has been met and to avoid biased estimation results. The classical assumption test has several test sections, namely normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

Normality test

The normality test aims to test whether in the regression model, the residual or confounding variable has a normal distribution or not. This test can be done can be seen from the normal probability plot graph as follows:

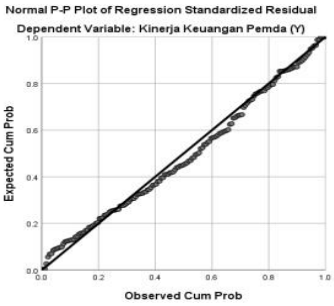

Figure 1. Graph of Normal Probability Plot

From Figure 1. above, it can be seen that the points spread around the diagonal line and follow the direction of the diagonal line, so the regression model fulfills the assumption of normality, so that the data in the research regression model can be concluded to be normally distributed.

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Multicollinearity Test

Multicollinearity test aims to test whether the regression model found a correlation between the independent variables (independent). To find the presence or absence of multicollinearity in the regression model, it can be seen from the Tolerance value and the Variance Inflation Factor (VIF) value. A good regression model should not have a correlation between the independent variables (Ghozali, 2016). If the Tolerance value is > 0.1 and the VIF value is < 10.00, it is concluded that there are no symptoms of multicollinearity. The following are the results of the multicollinearity test in the table below:

Table 4. Results of Multicollinearity Test

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	Regional Original Income (X1)	.487	2.054
	Balancing Fund (X2)	.416	2.402
	Capital Expenditure (X3)	.519	1.926

a. Dependent Variable: Regional Government Financial Performance (Y)

Based on table 4. shows that PAD with a Tolerance value of 0.467 and a VIF value of 2.054. The balance fund has a Tolerance value of 0.416 and a VIF value of 2.402. Then the capital expenditure Tolerance value is 0.519 and the VIF value is 1.926. So it can be concluded that all variables do not occur multicollinearity because each variable has a Tolerance value > 0.1 and a VIF value < 10.00.

Heteroscedasticity Test

Heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residual of one observation to another observation. This test can be seen through a scatterplot graph. If there is no clear pattern, and the points are spread above and below the number 0 on the Y axis, it indicates that there is no heteroscedasticity problem. The following are the results of the heteroscedasticity test in the image below:

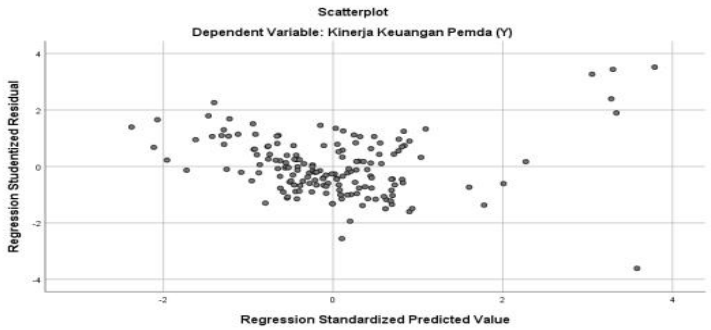

Figure 2. Graph of Heteroscedasticity

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From the scatterplot graph above, it is clear that there is no particular pattern because the points spread irregularly above and below the 0-axis on the y-axis. So it can be concluded that there are no symptoms of heteroscedasticity.

Autocorrelation Test

Autocorrelation test is used to determine whether there is a correlation between the nuisance error in period t and the error in period t-1 (previous). A good regression model is a regression that is free from autocorrelation. To detect the presence of auto correlation can be done through testing the value of the Durbin-Watson test (DW test).

Table 5. Autocorrelation Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.841[a]	.707	.702	8.90366	.885

a. Predictors: (Constant), Capital Expenditure (X3), Regional Original Income (X1), Balance Fund (X2)

b. Dependent Variable: Regional Government Financial Performance (Y)

Based on table 5 above, it can be seen that the D-W value is 0.885. This means that the D-W value is between -2 to +2. So it can be stated that the regression model in this study does not have autocorrelation.

Multiple Linear Regression Analysis

After all the classical assumption tests have been carried out and no problems are found, it can be continued with multiple linear regression analysis tests, following the results of multiple linear regression tests in the table below:

Table 6. Results of Multiple Linear Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	71.721	50.955		1.408	.161
	Regional Original Income (X1)	18.996	1.098	1.057	17.296	.000
	Balancing Fund (X2)	-22.834	2.496	-.605	-9.149	.000
	Capital Expenditure (X3)	6.568	2.183	.178	3.009	.003

a. Dependent Variable: Regional Government Financial Performance (Y)

Based on table 6, it can be seen that the regression equation in this study is as follows:

$$Y = 71{,}721 + 18{,}996X1 - 22{,}834X2 + 6{,}568X3 + e$$

From this equation can be interpreted as follows:

1. The value of the constant (α) is positive, namely 71.721. This means that if the PAD, balancing funds and capital expenditures are 0, then the local government's financial performance is 71.721.

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2. PAD regression coefficient of 18.996. This means that if the other independent variables are fixed and PAD increases, the local government's financial performance will increase by 18,996.
3. The regression coefficient for balancing funds is -22.834. This means that if the other independent variables remain constant and the balancing funds increase, the local government's financial performance will decrease by 22.834.
4. The capital expenditure regression coefficient is 6.568. This means that if the other independent variables remain and capital expenditures increase, the local government's financial performance will increase by 6.568.

Hypothesis Test

Partial test (t test)

The t-test was conducted to determine whether or not the influence of each independent variable individually on the dependent variable was tested at a significance level of 0.05 (Ghozali, 2016). This test can be measured by looking at the sig value obtained by each independent variable. If the sig value of the independent variable is less than 0.05, it can be concluded that there is an influence of the independent variable on the dependent variable. Here are the results of the t test:

Table 7. Partial Test Results (t Test)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	71.721	50.955		1.408	.161
	Regional Original Income (X1)	18.996	1.098	1.057	17.296	.000
	Balancing Fund (X2)	-22.834	2.496	-.605	-9.149	.000
	Capital Expenditure (X3)	6.568	2.183	.178	3.009	.003

a. Dependent Variable: Regional Government Financial Performance (Y)

1. Based on table 7. the test results can be seen as follows:
2. The PAD variable has a positive sign with a tcount of 17.296. While the ttable for the 5% significance level is 1.975, then the value of tcount > ttable. The significant value of the PAD variable is 0.000. This means that the significance value is less than 0.05. Because the value of tcount > ttable and the significance value is less than 0.05, PAD has a positive and significant impact on local government financial performance. Thus, the first hypothesis in this study is accepted, namely PAD has an effect on local government financial performance.
3. The balancing fund variable has a negative sign with -tcount of -9.149 While -ttable for the 5% significance level is -1.975, then the value of -tcount < ttable. The significant value of the balancing fund variable is 0.000. This means that the significance value is less than 0.05. Because the value of -tcount < -ttable and the significance value is less than 0.05, PAD has a negative and significant effect on local

government financial performance. Thus, the second hypothesis in this study is accepted, namely that balancing funds have an effect on local government financial performance.

4. The capital expenditure variable has a positive sign with tcount of 3,009 While the ttable for the 5% significance level is 1,975, then the value of tcount > ttable. The significant value of the capital expenditure variable is 0.003. This means that the significance value is less than 0.05. Because the value of tcount > ttable and the significance value is less than 0.05, capital expenditure has a positive and significant impact on the financial performance of local governments. Thus, the third hypothesis in this study is accepted, namely that capital expenditure has an effect on local government financial performance.

Simultaneous Test (F Test)

The F test was conducted to see the effect of the independent variables together on the dependent variable. Here are the results of the F test:

Table 8. Simultaneous Test Results (Test F)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	30811.314	3	10270.438	129.554	.000[b]
	Residual	12763.300	161	79.275		
	Total	43574.614	164			

a. Dependent Variable: Regional Government Financial Performance (Y)

b. Predictors: (Constant), Capital Expenditure (X3), Regional Original Income (X1), Balancing Fund (X2)

Based on table 8. it can be seen with a significance level of 5% and the number of df (n1) = 3, and df (n2) = 161 (n-k-1) or 165-3-1. So that obtained FT table of 2.56 . From the test results obtained by Fcount of 129.554, it means that Fcount > FTable and the value of sig < 0.05. So it can be concluded that PAD, balancing funds and capital expenditures simultaneously (simultaneously) affect the financial performance of local governments.

Coefficient of Determination Test

The coefficient of determination (R2) essentially measures how far the model's ability to explain variations in the dependent variable is. A small value of R2 means that the ability of the independent variables to explain variations in the dependent variable is very limited. The following are the results of the coefficient of determination test.

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Table 9. Results of the Coefficient of Determination

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.841[a]	.707	.702	8.90366

a. Predictors: (Constant), Capital Expenditure (X3), Regional Original Income (X1), Balancing Fund (X2)

b. Dependent Variable: Regional Government Financial Performance (Y)

Based on the results of table 9. above, it can be seen that the value of Adjusted R Square is 0.702 or 70.2%. This means that the contribution of the value of the independent variable is able to explain the dependent variable by 70.2%. While the remaining 29.8% is explained by other variables outside the study.

DISCUSSION

The Influence of Regional Original Income on Regional Government Financial Performance

Based on the research obtained regarding the effect of local revenue on local government financial performance, the results of partial hypothesis testing indicate that the tcount for the regional original income variable is 17.296 and tcount with = 5% is known to be 1.975. Thus, tcount is greater than tcount and the significant value of local revenue is 0.000 <0.05, meaning that from these results it can be concluded that the hypothesis in this study is accepted. Based on the results of the regression analysis, the direction of the regional original income variable coefficient shows a positive value of 18.996. This shows that if the regional original income variable increases, the financial performance of the regional government will increase by 18,996. Since the increase in local revenue has an effect on improving the financial performance of local governments, local revenue has a positive effect on the financial performance of local governments.

The Effect of Balancing Funds on Regional Government Financial Performance

Based on the research obtained regarding the effect of balancing funds on local government financial performance, the results of partial hypothesis testing indicate that the value of -tcount for the balancing fund variable is -9.149 and -tcount with = 5% is known to be -1.975. Thus, tcount is smaller than tcount and the significant value of balancing funds is 0.000 <0.05, meaning that from these results it can be concluded that the hypothesis in this study is accepted. Based on the results of the regression analysis, the direction of the variable coefficient of balancing funds shows a negative value, namely -22.834. This shows that if the balancing fund variable increases, the local government's financial performance will decrease by 22.834. Since the increase in the balancing fund has an effect on the decline in the financial performance of the regional government, the balancing fund has a negative effect on the financial performance of the regional government.

Effect of Capital Expenditure on Regional Government Financial Performance

Based on the research obtained regarding the effect of capital expenditure on local government financial performance, the results of partial hypothesis testing indicate that the tcount for the capital expenditure variable is 3,009 and tcount with = 5% is known to be

1,975. Thus, tcount is greater than tcount and the significant value of local revenue is 0.003 <0.05, meaning that from these results it can be concluded that the hypothesis in this study is accepted. Based on the results of the regression analysis, the direction of the regional original income variable coefficient shows a positive value of 6.568. This shows that if the capital expenditure variable increases, the local government's financial performance will increase by 6.568. Because increased capital expenditures have an effect on improving the financial performance of local governments, capital expenditures have a positive effect on the financial performance of local governments.

The Effect of Regional Original Income, Balancing Funds and Capital Expenditures on Regional Government Financial Performance

Based on the research obtained regarding the effect of regional original income, balancing funds and capital expenditures on the financial performance of local governments, the results of simultaneous hypothesis testing show that the value of fcount is 129.554 with a significant level of 0.000. While the ftable value is known to be 2.56 based on these results it can be seen that fcount > ftable (129.554 > 2.56). Based on these results, it can be concluded that local revenue, balancing funds and capital expenditures have a significant and significant effect on the financial performance of local governments. The results of this study also show that the value of Adjusted R Square in this regression is 0.702 or 70.2%. This means that the contribution of local revenue, balancing funds, and capital expenditures to the financial performance of local governments is 70.2%. While the remaining 29.8% is influenced by other variables that are not used in this study.

CONCLUSION

Based on the results of data testing that has been carried out using the multiple regression method, it can be obtained a conclusion as follows:

1. Local revenue has a significant effect on the financial performance of local governments in districts/cities in the province of North Sumatra.
2. The balancing fund has a significant effect on the financial performance of local governments in districts/cities in the province of North Sumatra.
3. Capital expenditures have a significant effect on the financial performance of local governments in districts/cities in the province of North Sumatra.
4. Simultaneous test results show that all independent variables, namely local revenue, balancing funds and capital expenditures together have a significant effect on the financial performance of local governments in districts/cities in the province of North Sumatra.

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